

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-448

For: County Offices

2-FLP

**Central National Bank, Poteau, OK
Preferred Lender Program Status**

Approved by: State Executive Director



1 Overview

A Background

2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.

B Purpose

The purpose of this notice is to:

- Advise County Offices that the Central National Bank Credit Management System (CMS) has been updated and revised.
- Provide guidance and direction to staff to ensure continuous service to the Lender.

C Contact

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the State Office.

D Filing Instructions

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
June 22, 2004	Farm Loan Program Teams, County Offices, DD's, COR's

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2 ACTION

A County Office Action

Attached is a copy of the revised Central National Bank PLP Credit Management System (CMS). This replaces the CMS that is attached to the bank's master October 13, 1999, Lender's Agreement (**maintain and do not destroy**) on file.

The PLP Status remains in effect for the same 5-year period, June 22, 1999, to June 22, 2004.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

B Loan Making

All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county, which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

C Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, Central National Bank must follow the servicing requirements for CLP lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect, regardless if the loan was approved under a previous CMS revision.

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D PLP Designated Loan Officers

Following is a list of person(s) designated to originate and service PLP loans, according to Central National Bank's Lender's Agreement/Credit Management System:

Chris Fenton, Executive Vice President
Johnny Baker, Vice President
Tracey Smith, Vice President

E CMS Interpretation

Contact the FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of the Central National Bank PLP Lender's Agreement/Credit Management System (CMS).

RECEIVED

OCT 30 2003

OK State Office
Farm Loan Programs

OCT 23 2003

Mr. Chris Fenton
Executive Vice President
Central National Bank
Post Office Box 340
Poteau, Oklahoma 74953

Dear Mr. Fenton:

We recently reviewed the attachment (i.e., Credit Management System (CMS) summary) to your Preferred Lender's Agreement and found that it does not contain amendment language regarding repayment capacity, which we approved on October 13, 1999. We are enclosing a corrected CMS for your files. We also modified the outline format of the CMS for easier reference.

If you have any questions, please contact Kathy Zeidler of my staff at (202) 720-5199.

Sincerely,

Carolyn B. Cooksie

Carolyn B. Cooksie
Deputy Administrator for
Farm Loan Programs

Enclosure

**PREFERRED LENDER PROGRAM
ATTACHMENT TO FORM FSA-1980-38, "LENDER'S AGREEMENT"**

**Central National Bank
Poteau, Oklahoma**

The following information summarizes the credit management system requirements agreed to by Central National Bank, Poteau, Oklahoma (Lender) as provided in the Lender's April 6, 1999, request for preferred lender status, with attachments and exhibits. Additional details are contained in the submitted attachments and exhibits.

I. GENERAL OPERATIONS

- The Lender's normal trade area for FSA guaranteed loans is Oklahoma and specified counties in Arkansas, as described on the Lender's Agreement.
- The following delegations of authority are applicable to guaranteed loans:

Chris Fenton	\$150,000
Loan and Discount Committee	\$500,000
Board of Directors	Above \$500,000
- Use of Agents, Consultants and Packagers: Outside appraisers are used, packagers are generally not used.
- Application: The Lender will submit an application, consisting of a completed "Preferred Lender Application for Guarantee" (FSA-1980-28) and a Loan Narrative summarizing the loan analysis and underwriting of the loan. Before submitting an application, the Lender will make a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate.

II. LOAN ANALYSIS / UNDERWRITING

A. Management Ability/Credit History Analysis

1. Credit bureau reports will be obtained.
2. If a creditor does not report to the credit bureau, the Lender will verify the debt in writing or verify the debt by phone and document the phone conversation. All written or verbal verifications will be placed in the Lender's credit file and, in most cases, be included in the Lender's narrative to FSA.

B. Capacity Analysis

1. Income and expenses data will be based on historical production and financial performance data for the past three to five years, as well as tax returns.
2. Income and expenses data for new operators will be based on county information, contract prices, or other reliable sources.
3. Cash flow ratio will be determined based on net income / total debt repayment.

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Central National Bank
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4. Repayment capacity of 100 percent cash flow will be required. Loans approved with less than 110 percent cash flow will be approved by the Loan and Discount Committee, and will only be made to applicants of high character and exceptional management capabilities.

C. Capital Analysis

1. A current (within 90 days) financial statement will be obtained.
2. A minimum capital position of 1:1 is required.
3. A minimum of three years financial statements, for an established operator, will be obtained.
4. All debts greater than \$1000 will be verified, with verification documented.

D. Collateral Analysis

1. Funds advanced will generally not exceed 80 percent of the lessor of appraised value or purchase price of security item. Loan to value greater than 80 percent must be approved by the Loan and Discount Committee and have positive compensating factors.
2. Real estate appraisals will be completed by an independent/certified appraiser.
3. Real estate appraisals will be no more than 12 months old; chattel appraisals will be no more than 90 days old.
4. Chattel appraisals will be completed by an employee familiar with current values (but not the loan officer) or an independent appraiser.
5. Appraisals of security will be completed in accordance with the requirements of 7 CFR 762.127.

III. GENERAL LOAN SERVICING

A. Property Insurance

Insurance will be maintained in accordance with the Lender's Credit Management System, Loan Servicing/Administration System paragraph A (iv) submitted with the Lender's request for PLP status.

B. Borrower Monitoring and Supervision

1. Lender will review each loan at least annually. Each loan in excess of \$5,000 will be supported with a current balance sheet and income statement. The minimum frequency of receiving financial statements will be as provided in the Central National Bank PLP Credit Management System. Documentation of such will be noted in the Lender's loan file.
2. For Lines of Credit the annual review will include a current balance sheet, the previous period's Income Statement and a cash flow projection that demonstrates the ability to meet all obligations before the operation is financed for subsequent years.
3. All chattel and real estate loans will have an annual inspection.

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4. Loan advances and the purchase and sale of collateral will be monitored by loan account officers. Acquisition of planned purchases of basic security will be verified by loan officer visit, Bill of Sale, vehicle title or similar.
5. The source of basic security proceeds will be itemized. LOC security proceeds will be monitored in aggregate based on planned date of receipt, and expected amount of proceeds.
6. Any significant changes, such as use of loan proceeds or changes in the operation during the year, will be supported by an updated revised cash flow with detailed explanation documented in the Lender's credit file regarding the reason for the change.
7. Regular reports will be provided by the Lender to FSA according to section 762.141(b) of 7 CFR part 762.

C. Additional Loans

1. No restrictions are placed on the Lender making unguaranteed loans to FSA guaranteed loan borrowers. If unguaranteed loans are made, the security and payment requirements of sections 762.126(c), 762.126(e)(2) and 762.140(d) of 7 CFR part 762 will be met.
2. The Lender may make emergency advances with written approval from the Agency in accordance with section 762.146(a)(3) of 7 CFR part 762. The emergency advance will be supported by a cash flow showing repayment of all advances, term debt payments and proposed advance.

D. Security Releases

1. Approval: Case-by-case basis by loan account officer. See paragraph F of Credit Management System submitted with the Lender's request for PLP status.
2. Term loans: The Lender will partial release in accordance with 762.142(b) of 7 CFR part 762.
3. Lines of Credit: Release of normal income security for a LOC will only occur in accordance with a projected cash flow budget.
4. File Documentation: Reason for release, appraisal (if security had to be appraised for loan approval), calculation and documentation of LTV after release, projected cash flow demonstrating continued repayment ability, written approval of release by loan officer, amendments to security instruments if required.

E. Subordinations

Guaranteed loan collateral positions will not be subordinated to secure another debt, except in accordance with the section 762.142(c) of 7 CFR part 762.

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Poteau, Oklahoma**

F. Interest Assistance

Approval, servicing and reporting requirements for of loans with interest assistance will be in accordance with Form FSA 1980-64, "Interest Assistance Agreement, " and section 762.150 of 7 CFR part 762.

G. Loan Consolidations

The consolidation of two or more FSA guaranteed loans may be carried out in accordance with the requirements of section 762.146(e) of 7 CFR part 762.

H. Sale or Participation of Loan

The provisions of sections 762.144 and 762.160 of 7 CFR part 762, Form FSA-1980-38, "Lender's Agreement," and Form FSA 1980-36, Assignment of Guarantee," will govern sales and participation of loans. These provisions are not amended by this attachment. Form FSA-1980-36, agreements with holders, and other documents relating to sale of an FSA Guaranteed loan will be maintained in the borrower file.

IV. DELINQUENT ACCOUNT SERVICING

A. Initiation

1. See Credit Management System, Loan Servicing/Administration System paragraph B.
2. Borrowers will be contacted by telephone, in person or mail within 10 days of a missed payment.
3. 30 days past due: Loan Servicing plan required, also if evident that a borrower will be unable to make a payment a loan servicing plan is required.
4. Loan Servicing plan will as a minimum include updated financials, cash flow analysis and collateral evaluations.
5. A decision as to loan restructuring or loan liquidation will be made with 90 days of default.

B. Restructure

1. Documentation: Approved in accordance with lending authorities found in the Lender's Credit Management System, General Operations, paragraph B.
2. Terms will not exceed authorities provided in 762.145(c)(1)(i) and (ii) of 7 CFR Part 762.
3. Loans will not be restructured with a balloon payment.
4. Cash flow showing feasible plan with payments to all creditors including the payment for the rescheduled note.

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5. Loan File Documentation:

- Loan officer analysis and justification
- Borrower must still be farming.
- Cash flow projection demonstrating ability to meet all obligations including rescheduled loan.
- New note, Form FSA-1980-84 "Modification of Guarantee", copy of Form RD-1980-47, "Guaranteed Loan Borrower Adjustments," copy of correspondence providing Agency copy of note, and other documents as appropriate.

C. Deferral

1. Documentation: Approved in accordance with lending authorities found in the Lender's Credit Management System, General Operations, paragraph B, submitted with the Lender's request for PLP status.
2. Current financial information and collateral analysis. Cash flow indicating repayment problems are only short term, promissory note modification documents, Form RD-1980-56, "Guaranteed Loan Borrower Deferment," and written notification of Agency.

D. Writedown

Debt writedown must be approved by the Board of Directors. Debt writedown will be completed according to section 762.145(e) of 7 CFR part 762.

E. Reporting

See sections 762.141(a) and (b) of 7 CFR part 762. No additional reports are required of the Lender on all loans; however, additional reports may be required by the Agency for specific loans. Loan specific FSA reporting requirements may be provided by the Agency on Form FSA-1980-15, "Conditional Commitment," when agreed to by the Lender.

F. Bankruptcy

See section 762.148 of 7 CFR part 762 for requirements on bankrupt accounts.

V. LIQUIDATION

1. All protective advances greater than \$5,000 will require prior written concurrence from FSA.
2. Lender will participate in mediation according to the rules and regulations of the state.
3. The Lender will make a decision to liquidate no later than 90 days after default.
4. Reporting and approval requirements: See sections 762.141(a) and 762.149(d) of 7 CFR part 762. A liquidation plan is required and will be provided to FSA within 30 days of the decision

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to liquidate. The Lender is permitted to conduct liquidation, including making bids at foreclosure sales without FSA prior approval of actions.

5. The Lender will release or agree to release the borrower from liability as part of an agreement to liquidate only with the approval of the loan and discount committee and FSA written concurrence or after payment of a final loss according to section 762.146(c) of 7 CFR part 762.
6. Final Loss Claims will be prepared submitted, reviewed and approved according to section 762.149(i) of 7 CFR part 762.

VI. EXCEPTIONS

1. Exceptions to policies may be made on a case-by-case basis when allowed by law and only in accordance with FSA regulations governing guaranteed loans found at 7 CFR part 762.
2. The loan account officer must document need for exception.
3. Exceptions will be approved under same authorities and thresholds as loan approvals.